

INCOME STATEMENT *
FOR THE YEAR ENDED 31 MARCH 2019



	Notes	2019 USD '000	2018 USD '000
Interest and similar income	2	22,527	17,389
Interest and similar expense	3	(9,179)	(6,327)
Net interest income		13,348	11,062
Fees and commission income	4	263	541
Fee and commission expense		-	-
Net fee and commission income		263	541
Net trading income / (loss)		54	256
Net other operating income / (exp)		(106)	374
Total Operating income		13,559	12,233
Personnel costs	5	(2,300)	(2,032)
Operating lease	25	(316)	(307)
Depreciation and amortisation	16,17	(160)	(140)
Other expenses	7	(2,237)	(1,442)
Operating expenses before impairment loss allowances		(5,013)	(3,921)
Operating profit		8,546	8,312
Impairment loss allowances	11	(25,181)	(1,930)
Profit / (Loss) before tax		(16,635)	6,382
Income tax credit / (charge)	8	2,939	(1,214)
Profit / (Loss) after tax		(13,696)	5,168

* There were no discontinued operations during the year

The notes on pages 27 to 60 form part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2019



	2019 USD '000	2018 USD '000
Total profit/(loss) for the year attributable to equity shareholders	(13,696)	5,168
Other comprehensive income net of tax		
Items that may be reclassified subsequently to profit or loss		
- Change in fair value	1,593	(2,382)
- Tax relating to change in fair value	(325)	418
Net other comprehensive income	1,268	(1,964)
Total comprehensive income attributable to equity shareholders for the year	(12,427)	3,204

The notes on pages 27 to 60 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 MARCH 2019



	Notes	2019 USD '000	2018 USD '000
Assets			
Cash and Balance at Bank	9	4,244	1,355
Financial assets at amortised cost:			
- Loans and advances to customers	11	302,055	336,818
- Loans and advances to Banks	10	26,337	-
- Financial investments (2018 - HTM)	13	12,239	13,807
Financial assets at FVTPL:			
- Financial investments (2018 - HFT)		-	1,916
- Derivative financial instruments	14	409	-
Financial assets at FVOCI:			
- Financial Instruments (2018 - AFS)	12	103,268	82,281
Property, plant and equipment	16	290	395
Intangible assets	17	164	49
Capital work in progress		70	70
Deferred tax assets (Net)	18	2,372	809
Other assets	19	2,651	1,794
Total Assets		454,100	439,295
Liabilities			
Financial Liabilities at FVTPL:			
- Derivative financial instruments	14	-	426
Financial liabilities at amortised cost:			
- Deposits from Banks	20	29,387	32,140
- Intra-group borrowings	21	60,564	62,429
- Deposits from customers	22	239,778	215,566
- Repurchase agreements	23	30,326	33,081
Other liabilities	24	730	1,061
Total Liabilities		360,784	344,703
Equity			
Share capital	26	100,000	90,000
Fair value reserves		(964)	(2,478)
Retained earnings / (Accumulated losses)		(5,719)	7,069
Total Shareholder's equity		93,317	94,591
Total Equity and liabilities		454,100	439,295

The notes on pages 27 to 60 form part of these financial statements.

The financial statements were approved by the Board of Directors and authorised for issue on 3 May 2019.


Viswesvaran Radhakrishnan
Managing Director & CEO


Dr Anand Kumar
Executive Director & Dy CEO

Company registration no: 07653660

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2019



31 March 2019	Notes	Issued capital USD '000	Fair value reserves USD '000	Retained earnings USD '000	Total equity USD '000
Balance as at 1 April 2018		90,000	(2,478)	7,069	94,591
Impact of IFRS 9 transition	1.4	-	246	907	1,153
Issue of share capital	26	10,000	-	-	10,000
Total Comprehensive Income / (loss)		-	1,268	(13,696)	(12,427)
Profit / (loss) for the year		-	-	(13,696)	(13,696)
Other Comprehensive Income		-	1,268	-	1,268
Balance as at 31 March 2019 attributable to shareholders of the Bank		100,000	(964)	(5,719)	93,317

31 March 2018	Notes	Issued capital USD '000	Fair value reserves USD '000	Retained earnings USD '000	Total equity USD '000
Balance as at 1 April 2017		80,000	(514)	1,901	81,387
Issue of share capital	26	10,000	-	-	10,000
Total Comprehensive Income / (loss)		-	(1,964)	5,168	3,204
Profit / (loss) for the year		-	-	5,168	5,168
Other Comprehensive Income		-	(1,964)	-	(1,964)
Balance as at 31 March 2018 attributable to shareholders of the Bank		90,000	(2,478)	7,069	94,591

The notes on pages 27 to 60 form part of these financial statements.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2019



	Notes	2019 USD '000	2018 USD '000
Cash flows from operating activities			
Net profit/(loss) before tax for the year		(16,635)	6,382
Adjustments to reconcile profit from operations:			
Amortisation of intangible non-current asset	17	40	18
Impairment loss during transition period		907	-
Depreciation for property, plant and equipment	16	120	122
Corporation tax credit during the year		2,939	-
Cash flows before changes in operating activities		4,006	140
Movement in working capital			
Decrease/(Increase) in receivables & prepayments	19	371	(949)
Tax paid		(1,228)	-
Increase / (Decrease) in other liabilities	24	(1,895)	(1,774)
Net Increase in working capital		(2,752)	(2,723)
Cash flows from operating activities			
Decrease / (Increase) in loans and advances to customers	11	34,763	(59,833)
(Increase)/Decrease in loans and advances to banks	10	(26,337)	7,000
(Decrease) / Increase in deposits from Banks	20	(2,753)	(3,561)
(Decrease) / Increase in deposits from customers	22	24,212	46,624
(Decrease) / Increase in repurchase agreements	23	(2,755)	33,081
(Increase)/Decrease in derivative financial instruments - Assets	14	(409)	324
(Decrease)/Increase on derivative financial instruments - Liab.	14	(426)	426
		26,295	24,061
Net cash flows used in operating activities (A)		10,915	27,859
Cash flows from investing activities			
Acquisition of Investments - FVOCI (net of reserves)	12	(19,473)	(47,633)
Decrease in Investments - Amortised cost	13	1,568	57
Disposal / (Acquisition) of Investments - FVTPL		1,916	(1,916)
Acquisition of property, plant and equipment	16	(15)	(56)
Acquisition of intangible assets	17	(155)	(36)
(Increase) / decrease in capital work in progress		0	(1)
Net cash flows used in investing activities (B)		(16,159)	(49,585)
Cash flows from financing activities			
Proceeds from issue of equity share capital	26	10,000	10,000
(Repayment to) / Proceeds from Intra-group borrowings	21	(1,867)	12,161
Net cash flows from financing activities (C)		8,133	22,161
Net increase in cash and cash equivalents (A+B+C)		2,889	436
Cash and cash equivalents at beginning of the year		1,355	919
Cash and cash equivalents at close of the year	9	4,244	1,355

The notes on pages 27 to 60 form part of these financial statements.

1 ACCOUNTING POLICIES

These financial statements are prepared for Union Bank of India (UK) Ltd. (the "Bank") under the UK Companies Act 2006. Union Bank of India (UK) Limited is a limited company incorporated in the United Kingdom under the Companies Act 2006 and registered in England and Wales. The Bank is a wholly owned subsidiary of Union Bank of India, one of the leading public-sector banks of India. The address of the registered office is Senator House, 85 Queen Victoria Street, London (UK) EC4V 4AB. The nature of the Bank's operations and its principal activity is set out on page 3.

1.1 Basis of preparation

The financial statements have been prepared on the going concern basis using the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and financial liabilities held at fair value through profit or loss and all derivative contracts and assets held for sale, where applicable.

1.2 Compliance with International Financial Reporting Standards (IFRS)

Financial statements have been prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provision of the UK Companies Act 2006. Disclosures required by IFRS 7 'Financial Instruments: Disclosure' relating to the nature and extent of risks arising from financial instruments, and IAS 1 'Presentation of Financial Statements' relating to objectives, policies and processes for managing capital, can be found in the Risk Management. Those disclosures form an integral part of these financial statements.

1.3 Recent accounting developments

On 1 April 2018, Bank adopted IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers'. The new or revised accounting policies are set out below.

The accounting policy changes for IFRS 9, set out below, have been applied from 1 April 2018. Comparatives have not been restated as permitted by IFRS 9 and IFRS 15. As a result of the change from IAS 39 to IFRS 9, some disclosures presented in respect of certain financial assets are not comparable because their classification may have changed between the two standards. This means that some IFRS 9 disclosures are not directly comparable and some disclosures that relate to information presented on an IAS 39 basis are no longer relevant in the current period.

The application of IFRS 15 had no impact on the Bank as there were no changes in the recognition of in-scope income.

1.4 The Adoption of IFRS 9

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments. For the accounting period starting on or after 1 January 2018, IFRS 9 replaced IAS 39, and introduced new rules on how to classify and measure financial assets, as well as new concepts, principles and measures for credit impairment charges. Throughout FY 2018-19, Bank has enhanced and refined its accounting processes and procedures, internal controls and governance framework to embed the new requirements of IFRS 9. As IFRS 9 affects the timing when Bank recognise credit impairment charges, but not the amount of credit write-offs, its adoption did not materially change credit risk policies. Bank's credit risk appetite in terms of target markets, market share and the credit quality of customers, were not directly impacted. The main impacts were on how Bank monitors credit risk. As part of this, Bank has started to monitor IFRS 9 metrics. These mainly centre on ECL and classification of exposures as Stages 1, 2 and 3. Bank expect to develop these metrics further in 2019.

IFRS 9 has been adopted without restating comparative information. The reclassifications and the adjustments arising from the new impairment rules are therefore not reflected in the balance sheet as at 31 March 2018, but are recognised in the opening balance sheet as on 1 April 2018. As prior periods have not been restated, changes in impairment of financial assets in the comparative period remain in accordance with IAS 39 and are therefore not necessarily comparable to the loss provisions reported for the current period.

ACCOUNTING POLICIES (Continued)
The Adoption of IFRS 9 (Continued)

As a result of adoption of IFRS 9, the opening Capital has increased by \$1.14m as on 1st of April'18 mainly due to decrease in the provision by \$1.04m and consequent decrease in the deferred tax assets by \$0.1m. There has been no change in the carrying amount of the financial instruments on the basis of their measurement categories. All adjustments have arisen solely due to a replacement of the IAS 39 incurred loss impairment approach with an ECL approach.

Condensed Statement of Financial Position

Particulars	31/03/2018	IFRS 9		01/04/2018
	As originally presented USD'000	adjustment- Classification and measurement USD'000	IFRS 9 adjustment- Expected Credit Losses USD'000	Restated USD '000
Assets:-				
Loans & advances to customers	336,818	-	1,073	337,892
Financial investments	13,807	-	(32)	13,775
Deferred tax assets	809	-	112	921
Equity:-				
Retained Earnings	7,069	-	907	7,976
Fair value reserve *	(2,478)	-	246	(2,233)

*Note: The impact of IFRS 9 provision on the opening amount of Investments held in FVOCI has been adjusted in the retained earnings and Fair Value Reserve as on 01/04/2018.

The total impact on the Bank's retains earning as at 1 April 2018 is as follows:-

Particulars	01/04/2018 USD'000
Closing retained earning 31 March 18 - IAS 39	7,069
Decrease in provision for financial instruments	1,041
Change in Modification Criteria	-
Change in Fair value reserve	(246)
Increase in deferred tax assets relating to impairment provisions	112
Total Adjustment to retained earning from adoption of IFRS 9 on 1 April 2018	907
Opening Retained Earning 1 April 18 - IFRS 9	7,976

Classification of Financial Instruments as per IAS 39		31/03/2018 USD'000
Financial assets		
Financial investments – AFS	Financial investments – FVOCI	82,281
Financial investments – HTM	Financial investments – Amortised cost	13,807
Financial investments – HFT	Financial investments – FVTPL	1,916
Loans and advances to customers	Loans and advances to customers	340,118
		438,123
Financial Liabilities		
Derivative financial instruments	Derivative financial instruments	426
Deposits from Banks	Deposits from Banks	94,569
Deposits from customers	Deposits from customers	215,566
Repurchase agreements	Repurchase agreements	33,081
		343,642

There is no change in classifications of Financial instruments due to adoption of IFRS 9

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019



ACCOUNTING POLICIES (Continued)
The Adoption of IFRS 9 (Continued)

The balance of Financial Instruments as on 31 March 2018 reconcile to the balance as on 1 April 2018 as follows:-

Financial Instrument Balance	USD'000
At 31 - March 2018 - Calculated under IAS 39	351,434
Amounts restated through opening retained earnings	1,153
Opening Balance as on 1 April 2018 - calculated under IFRS 9	352,587

Total impairment loss allowances decreased on adoption of IFRS9, due to reversal of General provision recognised in previous financial years

Reconciliation of impact due to transition to IFRS 9

	USD'000
Estimated impact - Capital reduction - 31 March 2018 (Un- Audited)	(2,615)
Actual impact - increase in Capital - 1 April 2018 (Audited)	1,153
Difference between Estimated and Actual	3,768

EMBEDDING OF IFRS 9 CREDIT PROVISIONS

The management had a appropriate methodology for evaluating the results of the models given their complexity and a clear trail of their workings, particularly due to the models' key output.

The model and methodology changes had been approved by the appropriate committee of the bank.

The management 's judgement on level of credit provisions were considered appropriate and it will be monitored on regular basis.

The credit portfolio was regularly reviewed to ensure that all impairment triggers have been identified.

Apart from credit other exposures were also reviewed to ensure that there had been no impairment triggers that could warrant significant adjustment to provisions level.

Classification – Financial assets

IFRS 9 contains a new classification and measurement approach for financial assets. New classification categories include: measured at amortised cost, FVOCI (Fair Value Through Other Comprehensive Income) and FVTPL (Fair Value Through Profit and Loss).

The standard will affect the classification and measurement of financial assets as follows; (subject to the Business Model Assessment (BMA) test and Solely Payments of Principal and Interest (SPPI) test)

Loans and advances to banks and customers previously classified as loans and receivables and measured at amortised cost will in general also be measured at amortised cost under IFRS 9.

Held to maturity investment securities previously measured at amortised cost will in general also be measured at amortised cost under IFRS9.

Debt investment securities previously classified as available-for-sale, will in general, under IFRS 9, be measured at FVOCI

Debt investment securities previously classified as held-to-trade, will in general, under IFRS 9, be measured at FVTPL

ACCOUNTING POLICIES (Continued)

The Adoption of IFRS 9 (Continued)

Impairment

IFRS 9 replaces the "incurred loss" model under IAS 39 with a forward looking "expected credit loss" (ECL) model. Depending on the asset's classification under the three stage model (Stage 1- credit risk has not increased; Stage 2 – credit risk has increased significantly & Stage 3 – credit impaired or defaulted financial asset).

Where credit risk is deemed not to have increased significantly since initial recognition (Stage 1) a loss allowance is calculated based on an amount equal to 12-month ECL (Expected Credit Loss).

Where credit risk is deemed to have increased significantly since initial recognition (Stage 2) a loss allowance based on lifetime expected losses are calculated. An asset is deemed to have moved to Stage 3 where management considers the asset to be impaired in accordance with the Bank's relevant policies.

Quantitative modelling will be used in conjunction with internal &/or external credit grades and ratings in assessing whether credit risk has significantly increased. The Bank will monitor the effectiveness of the criteria used to identify any increase through regular reviews and watch list.

Under IFRS 9 the Bank will consider a financial asset to be in default and or credit impaired when either the borrower is unlikely to pay its credit obligations or the borrower is more than 90 days past due.

Bank uses a number of key metrics to measure and control credit risk, as follows:-

ECL (Expected Credit Loss):- Probability-weighted (average) estimate of credit losses. Determined as the present value of the product of Probability of Default, Loss Given Default and Exposure at Default.

EAD (Exposure at Default):- An estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, and expected drawdowns on committed facilities.

12 month PD (12 month Probability of Default) :- The 12-month PD is the estimated probability of default occurring within the next 12 months (or over the remaining life of the financial instrument if that is less than 12 months). It is used to calculate 12-month ECLs.

Lifetime PD (Lifetime Probability of Default):- The Lifetime PD is the estimated probability of a default occurring over the remaining life of the financial instrument. This is used to calculate lifetime ECLs for 'stage 2' and 'stage 3' exposures. PDs may be broken down further into marginal probabilities for sub-periods within the remaining life.

LGD (Loss Given Default):- An estimate of the loss arising as a result of the default of the counterparty and is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from any collateral.

CCF (Credit Conversion Factor):- An estimate of the probability of an off-balance sheet credit exposure shifting onto the balance sheet.

EIR (Effective interest rate):- The rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset or to the amortised cost of a financial liability.

Recognising PD (Probability of Default)

Bank determines an exposure's 12-month PD as follows:

- An appropriate rating of the counterparty is determined through the application of either the relevant Rating Scorecard (for the lending portfolio) or through the long term rating (for the investment portfolio).
- A credit cycle adjustment is applied to the sourced rating to produce a forward-looking PD. A forward-looking PD term structure (up to 30 years) is determined for three macroeconomic scenarios applicable to that counterparty.
- These approaches have been selected given that the bank has insufficient default history to create its own PD models.

ACCOUNTING POLICIES (Continued)

The Adoption of IFRS 9 (Continued)

Recognising LGD (Loss Given Default)

The Basel Foundation Internal Rating Based Approach ("F-IRB") is used in deriving LGDs for the bank's IFRS 9 implementation. The Basel F-IRB LGDs do not yet consider forward looking information. Given that the bank has been operating for only a few years and the data available is not sufficient to form a judgement. Whilst typically an overlay to the Basel FIRB LGD, to account for macroeconomic sensitivity would be recommended, a valid overlay cannot be inferred due to the insufficient data. In light of this, Bank has used the Basel FIRB LGD in the ECL computation, without adjustment, until sufficient history is built up.

Macroeconomic Scenario

Forward looking expectations and macroeconomic scenarios analysis are key themes in IFRS 9's impairment recognition model. The purpose of macroeconomic scenario analysis is to understand the impacts of changing economic scenarios on the stage allocation of an instrument and the resulting expected credit loss calculations. Bank has incorporated the impact of changing macroeconomic scenarios on both staging and the ECL computation through consideration of three discrete scenarios, i.e. Base Case, Upturn and Downturn, for e.g. Upturn scenario will Reflect, a plausible but slightly optimistic view of the exposure in the relevant cluster and Downturn, pessimistic view. For each scenario, expert judgement are applied to determine an appropriate probability of occurrence. These probabilities determined through management's consideration of global economic reports (e.g. World Bank forecasts) or alternatively sourced through external vendors such as Oxford Economics or Moody's Analytics.

ECL Computation

ECL computation is based on the probability weighted average approach. For each exposure, under each scenario, the 12 month and lifetime ECL are determined. 12 month and Lifetime ECLs are then computed under each scenario, with the final ECL determined as the probability weighted average of each scenarios ECL.

Exposure at Default (EAD)

EAD is computed on the basis of exposure type and the exposure's Credit Conversion Factor (CCF). Given that the bank is still in its infancy, insufficient behavioural data is available to model its own CCFs. In light of this, the CCFs as prescribed by Basel are applied.

Significant Increase in Credit Risk (SICR)

Loans which have suffered a SICR since origination are subject to a lifetime ECL assessment which extends to a maximum of the contractual maturity of the loan, or behavioural term for revolving facilities. Loans which have not experienced a SICR are subject to 12 month ECL. Assessment has been made for each facility's credit risk profile to determine which of three stages to allocate them to:

- **Stage 1:** when there has been no SICR since initial recognition. Bank has applied a loss allowance equal to a 12 month ECL i.e. the proportion of lifetime expected losses that relate to that default event expected in the next 12 months
- **Stage 2:** when there has been a SICR since initial recognition, but no credit impairment has materialised. Bank has applied a loss allowance equal to the lifetime ECL i.e. lifetime expected loss resulting from all possible defaults throughout the residual life of a facility
- **Stage 3:** when the exposure is considered credit impaired. Bank has applied a loss allowance equal to the lifetime ECL. Objective evidence of credit impairment is required.

ACCOUNTING POLICIES (Continued)
The Adoption of IFRS 9 (Continued)

Definition of default

A facility is considered as "default" when:

- The facility is 90 DPD; or
- In case of bankruptcy, insolvency, legal receivership or other legal blocks (perhaps by regulators) to the timely payment of interest and/or principal; or

If the debtor has been declared bankrupt or has become insolvent, claim on the debtor will be classified as default from the date, bankruptcy/ insolvency was declared, unless it was already classified as such.

However, if the debtor has paid the interest due on an asset but has been unable to make repayments of the principal, the asset shall not be classified as non-performing if Bank along with the debtor have agreed on a new payment schedule and the account remains in the performing category.

1.5 Future accounting developments

At 31 March 2019, the Bank has not yet adopted the following significant new or revised standards and interpretations, and amendments thereto, which have been issued but which are not yet effective:

IFRS 16 'Leases'

In January 2016, the IASB issued IFRS 16. The standard is effective for annual periods beginning on or after 1 January 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both lessees and lessors. For lessee accounting, IFRS 16 introduces a single lessee accounting model and requires a lessee to recognise a right-of-use (ROU) asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments for all leases with a term of more than 12 months, unless the underlying asset is of low value.

For lessor accounting, IFRS 16 substantially carries forward the lessor accounting requirements from the existing leasing standard (IAS 17) and a lessor continues to classify its leases as operating leases or finance leases and to account for those two types of leases differently.

For the Bank, the application of IFRS 16 at 1 April 2019 is expected to increase property, plant and equipment by £1.09m (\$1.43m) (being the net increase in ROU assets referred to above) and increase other liabilities by similar amount from recognising lease liabilities. There is expected to be no impact on shareholders' equity. Impact of adoption of IFRS 16 is insignificant.

1.6 Revenue recognition

A) Interest income and expense

Interest and similar income comprises interest income on financial assets measured at amortised cost, investments in debt instruments measured at FVOCI (2017-18: available-for-sale) and investments in debt instruments measured at FVTPL (2017-18: held-for-trade). Interest expense and similar charges comprises interest expense on financial liabilities measured at amortised cost.

Interest income and expenses on financial assets is determined using the effective interest rate method. Fees and commissions that are not an integral part of the effective interest rate are recognised when the service is performed. Most fee and commission income is recognised at a point in time.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for financial assets that have subsequently become credit-impaired (or 'stage 3'), for which interest revenue is calculated by applying the effective interest rate to their amortised cost (i.e. net of the ECL provision).

ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

B) Fee and commission income and expense

Fees and commissions that are not an integral part of the effective interest rate are recognised when the service is performed. Most fee and commission income is recognised at a point in time. Certain commitment, upfront and management fees are recognised over time but are not material.

Fee and Commission income is earned from following services provided by the Bank to its customers and accounted for as follows;

- income earned on the execution of a significant act is recognised as revenue when the act is completed (for example, fees arising from negotiating, facilitating, coordinating, or participating in the negotiation of, a transaction for a third-party);
- income earned from the provision of services is recognised as revenue as the services are provided.
- income from processing/upfront fee is recognised as revenue as received unless it is forming part of integral part of the effective interest rate.

Fee and commission income which forms an integral part of the effective interest rate of a financial instrument is recognised as an adjustment to the effective interest rate and recorded in 'Interest income'. Bank is not having Fee and Commission income of this nature.

C) Dividend income

Dividend income is recognised when the right to receive payment is established.

D) Net trading and other income

Net trading and other income includes all gains and losses from changes in the fair value of financial assets and liabilities held at fair value through profit or loss (financial assets and liabilities at fair value through profit or loss and derivatives). Changes in fair value of derivatives are also recognised in net trading and other income. Other income includes profits and losses arising on the sales of financial assets held at fair value through other comprehensive income.

1.7 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, including computer software, which are assets that necessarily take a substantial period of time to develop for their intended use, are added to the cost of those assets, until the assets are substantially ready for their intended use. All other borrowing costs are recognised in profit or loss in the period in which they occur.

1.8 Intangible assets

The value of intangible assets is amortised on a straight-line basis over their useful economic life. Other intangible assets are reviewed annually for impairment indicators and tested for impairment where indicators are present.

Software development costs are capitalised when they are direct costs associated with identifiable and unique software products that are expected to provide future economic benefits and the cost of those products can be measured reliably. These costs include payroll, materials, services and directly attributable overheads. Internally developed software meeting these criteria and externally purchased software are classified in intangible assets on the balance sheet and amortised on a straight-line basis over their useful life of three years, unless the software is an integral part of the related computer hardware, in which case it is treated as property, plant and equipment as described below. Capitalisation of costs ceases when the software is capable of operating as intended. Costs of maintaining software are expensed as incurred.

1.9 Property, plant and equipment

Property, plant and equipment include owner-occupied properties (including leasehold properties), office fixtures and equipment and computer software. Property, plant and equipment are carried at cost less accumulated depreciation and accumulated impairment losses. A review for indications of impairment is carried out at each reporting date. Gains and losses on disposal are determined by reference to the carrying amount and are reported in net trading and other income. Repairs and renewals are charged to the income statement when the expenditure is incurred. Classes of property, plant and equipment are depreciated on a straight-line basis over their useful life, as follows:

Leasehold improvements	over the lease period
Furniture and equipment	up to 5 years
Computer hardware	up to 3 years

1.10 Financial Instruments

A) Initial recognition and measurement

Financial assets and liabilities are initially recognised when the Bank becomes a party to the contractual terms of the instrument. The Bank determines the classification of its financial assets and liabilities at initial recognition and measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at FVTPL, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss. Immediately after initial recognition, an expected credit loss (ECL) allowance is recognised for financial assets measured at amortised cost and investments in debt instruments measured at FVOCI.

B) Financial assets and liabilities

1) Classification and subsequent measurement

From 1 April 2018, the Bank has applied IFRS 9 Financial Instruments and classifies its financial assets in the measurement categories of amortised cost, FVOCI and FVTPL.

Financial assets and financial liabilities are classified as FVTPL where there is a requirement to do so or where they are otherwise designated at FVTPL on initial recognition. Financial assets and financial liabilities which are required to be held at FVTPL include:

- Financial assets and financial liabilities held for trading
- Debt instruments that do not have solely payments of principal and interest (SPPI) characteristics. Otherwise, such instruments are measured at amortised cost or FVOCI, and
- Equity instruments that have not been designated as held at FVOCI.

Financial assets and financial liabilities are classified as held for trading if they are derivatives or if they are acquired or incurred principally for the purpose of selling or repurchasing in the near-term, or form part of a portfolio of financial instruments that are managed together and for which there is evidence of short-term profit taking.

The classification and measurement requirements for financial asset debt and equity instruments and financial liabilities are set out below.

1.1) Financial assets: debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans and government and corporate bonds. Classification and subsequent measurement of debt instruments depend on the Bank's business model for managing the asset, and the cash flow characteristics of the asset.

ACCOUNTING POLICIES (Continued)
FINANCIAL INSTRUMENTS (Continued)
Business model

The business model reflects how the Bank manages the assets in order to generate cash flows and, specifically, whether the Bank's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of the assets. If neither of these is applicable, such as where the financial assets are held for trading purposes, then the financial assets are measured at FVTPL.

Factors considered in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the assets' performance is evaluated and what is the strategy for holding those assets.

SPPI

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Bank assesses whether the assets' cash flows represent SPPI. In making this assessment, the Bank considers whether the contractual cash flows are consistent with a basic lending arrangement (i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement). Where the contractual terms introduce exposure to risk or volatility that is inconsistent with a basic lending arrangement, the related asset is classified and measured at FVTPL.

Based on these factors, the Bank classifies its debt instruments into one of the following measurement categories:

– **Amortised cost** – Financial assets that are held for collection of contractual cash flows where those cash flows represent SPPI, and that are not designated at FVTPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any ECL recognised and measured. Interest income from these financial assets is included in 'Interest and similar income' using the effective interest rate method. When estimates of future cash flows are revised, the carrying amount of the respective financial assets or financial liabilities is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in the income statement.

– **FVOCI** – Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent SPPI, and that are not designated at FVTPL, are measured at FVOCI. Movements in the carrying amount are recognised in OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in 'Net trading and other income'. Interest income from these financial assets is included in 'Interest and similar income' using the effective interest rate method.

– **FVTPL** – Financial assets that do not meet the criteria for amortised cost or FVOCI are measured at FVTPL. A gain or loss on a debt instrument that is subsequently measured at FVTPL, including any debt instruments designated at fair value, is recognised in profit or loss and presented in the income statement in 'Net trading and other income' in the period in which it arises.

The Bank reclassifies financial assets when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent.

ACCOUNTING POLICIES (Continued)

FINANCIAL INSTRUMENTS (Continued)

1.2) Financial assets: equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective, being instruments that do not contain a contractual obligation to pay cash and that evidence a residual interest in the issuer's net assets. All equity investments are subsequently measured at FVTPL, except where management has elected, at initial recognition, to irrevocably designate an equity investment at FVOCI. When this election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. ECLs (and reversal of ECLs) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognised in profit or loss as other income when the right to receive payments is established. Gains and losses on equity investments at FVTPL are included in the 'Net trading and other income' line in the income statement.

1.3) Financial liabilities

Financial liabilities are classified as subsequently measured at amortised cost, except for:

- Financial liabilities at fair value through profit or loss: this classification is applied to derivatives, financial liabilities held for trading and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability) and partially in profit or loss (the remaining amount of change in the fair value of the liability) and
- Financial guarantee contracts and loan commitments.

1.4) Sale and repurchase agreements (including stock borrowing and lending)

Securities sold subject to a commitment to repurchase them at a predetermined price (repos) under which substantially all the risks and rewards of ownership are retained by the Bank remain on the balance sheet and a liability is recorded in respect of the consideration received. Securities purchased under commitments to resell (reverse repos) are not recognised on the balance sheet and the consideration paid is recorded as an asset. The difference between the sale and repurchase price is treated as trading income in the income statement, except where the repo is not treated as part of the trading book, in which case the difference is recorded in interest income or expense.

2) Impairment of debt instrument financial assets

The Bank assesses on a forward-looking basis the ECL associated with its debt instrument assets carried at amortised cost and FVOCI and with the exposure arising from financial guarantee contracts and loan commitments. The Bank recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes
- The time value of money and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

2.1) Write-off

For secured loans, a write-off is only made when all collection procedures have been exhausted and the security has been sold or from claiming on any mortgage indemnity guarantee or other insurance. In the corporate portfolio, there may be occasions where a write-off might occur for other reasons, such as following a consensual restructure or refinancing of the debt or where the debt is sold for strategic reasons into the secondary market at a value lower than its face value.

ACCOUNTING POLICIES (Continued)
FINANCIAL INSTRUMENTS (Continued)

2.2) Recoveries

Recoveries from impaired loans are adjusted against the respective loans accounts. Accordingly, it reduces the impaired loan balances and generally associated impairment loss allowances.

3) Modifications of financial assets

The treatment of a renegotiation or modification of the contractual cash flows of a financial asset normally depends upon whether the renegotiation or modification is due to financial difficulties of the borrower or for other commercial reasons.

– **Contractual modifications due to financial difficulties of the borrower:** where the Bank modifies the contractual conditions to enable the borrower to fulfil their payment obligations, the asset is not derecognised. The gross carrying amount of the financial asset is recalculated as the present value of the renegotiated/modified contractual cash flows that are discounted at the financial asset's original EIR and any gain or loss arising from the modification is recognised in the income statement.

– **Contractual modifications for other commercial reasons:** such modifications are treated as a new transaction resulting in derecognition of the original financial asset, and the recognition of a 'new' financial asset. Any difference between the carrying amount of the derecognised asset and the fair value of the new asset is recognised in the income statement as a gain or loss on derecognition.

Any other contractual modifications, such as where a regulatory authority imposes a change in certain contractual terms or due to legal reasons, are assessed on a case-by- case basis to establish whether or not the financial asset should be derecognised.

4) Derecognition other than on a modification

Financial assets are derecognised when the rights to receive cash flows have expired or the Bank has transferred its contractual right to receive the cash flows from the assets and either: (1) substantially all the risks and rewards of ownership have been transferred; or (2) the Bank has neither retained nor transferred substantially all of the risks and rewards, but has transferred control.

Financial liabilities are derecognised when extinguished, cancelled or expired.

c) Financial guarantee contracts and loan commitments

Financial guarantee contracts are initially measured at fair value and subsequently measured at the higher of the amount of the loss allowance, and the premium received on initial recognition less income recognised in accordance with the principles of IFRS 15. Loan commitments are measured as the amount of the loss allowance. The Bank has not provided any commitment to provide loans at a below-market interest rate, or that can be settled net in cash or by delivering or issuing another financial instrument.

For financial guarantee contracts and loan commitments, the loss allowance is recognised as a provision and charged to credit impairment losses in the income statement. The loss allowance in respect of revolving facilities is classified in loans and advances to customers to the extent of any drawn balances. The loss allowance in respect of undrawn amounts is classified in provisions. When amounts are drawn, any related loss allowance is transferred from provisions to loans and advances to customers.

d) Derivative financial instruments (derivatives)

Derivatives are contracts or agreements whose value is derived from one or more underlying indices or asset values inherent in the contract or agreement, which require no or little initial net investment and are settled at a future date. Transactions are undertaken in cross currency swaps.

Derivatives are recognised initially (on the date on which a derivative contract is entered into), and are subsequently remeasured, at their fair value. Fair values of cross currency swaps are calculated using forward currency exchange rate.

ACCOUNTING POLICIES (Continued)
FINANCIAL INSTRUMENTS (Continued)

All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative, except where netting is permitted. Gains and losses from changes in the fair value of derivatives are recognised in the income statement, and included within net trading and other income.

E) Impairment of non-financial assets

At each balance sheet date, or more frequently when events or changes in circumstances dictate, property plant and equipment and intangible assets are assessed for indicators of impairment. If indications are present, these assets are subject to an impairment review. The impairment review comprises a comparison of the carrying amount of the asset or cash generating unit with its recoverable amount: the higher of the asset's or cash-generating unit's fair value less costs to sell and its value in use.

The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Value in use is calculated by discounting management's expected future cash flows obtainable as a result of the asset's continued use, including those resulting from its ultimate disposal, at a market based discount rate on a pre-tax basis.

The carrying values of property, plant and equipment, goodwill and other intangible assets are written down by the amount of any impairment and the loss is recognised in the income statement in the period in which it occurs.

1.11 Leases

a) The Bank as lessor

Bank has not entered in to any lease contract as a lessor, hence this is not applicable on the Bank.

b) The Bank as lessee

If the lease agreement transfers the risk and rewards of the asset, the lease is recorded as a finance lease and the related asset is capitalised. At inception, the asset is recorded at the lower of the present value of the minimum lease payments or fair value and depreciated over the lower of the estimated useful life and the life of the lease. The corresponding rental obligations are recorded as borrowings.

1.12 Income taxes, including deferred taxes

The tax expense represents the sum of the income tax currently payable and deferred income tax. Income tax payable on profits, based on the applicable tax law, is recognised as an expense in the period in which profits arise. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

A current tax liability for the current or prior period is measured at the amount expected to be paid to the tax authorities. Where the amount of the final tax liability is uncertain or where a position is challenged by a taxation authority, the liability recognised is the most likely outcome.

Deferred income tax is the tax expected to be payable or recoverable on income tax losses available to carry forward and on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Financial Statements. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the assets may be utilised as they reverse.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on rates enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

ACCOUNTING POLICIES (Continued)

Income taxes, including deferred taxes (Continued)

The Bank reviews the carrying amount of deferred tax assets at each balance sheet date and reduces it to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred and current tax assets and liabilities are only offset when they arise in the same tax reporting group and where there is both the legal right and the intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

1.13 Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, balances with Banks and highly liquid financial assets with original maturities of three months or less and that are subject to an insignificant risk of change in their fair value and are used by the Bank in the management of its short-term commitments.

1.14 Provisions

Provisions are recognised for present obligations arising as consequences of past events where it is more likely than not that a transfer of economic benefits will be necessary to settle the obligation, and it can be reliably estimated.

Provision for leasehold dilapidations relates to the estimated cost of returning a leasehold property to its original state at the end of the lease in accordance with the lease terms. The main uncertainty relates to estimating the cost that will be incurred at the end of the lease.

Provisions are reviewed at the end of each reporting date to reflect the current best estimate. If it is no longer probable that an outflow will be required to settle the obligation, the provisions are reversed.

Contingent liabilities are possible obligations whose existence will be confirmed only by certain future events or present obligations where the transfer of economic benefit is uncertain or cannot be reliably measured. Contingent liabilities are not recognised but are disclosed unless they are remote.

1.15 ACCOUNTING POLICIES RELATING TO COMPARATIVES - IAS 39

On 1 April, 2018, the bank adopted IFRS 9, which replaced IAS 39. In Accordance with the transition requirement of IFRS 9, comparatives were not restated. The accounting policies applied in accordance with IAS 39 for periods before the adoption of IFRS 9 are set below:-

Financial assets and liabilities – IAS 39

Financial assets and liabilities are initially recognised when the Bank becomes a party to the contractual terms of the instrument. The bank determines the classification of its financial assets and liabilities at initial recognition. Financial assets are classified as financial assets at fair value through profit or loss, loans and receivables, available-for-sale financial assets and held-to-maturity investments. Financial assets that are classified at fair value through profit or loss, which have not been designated as such or are not accounted for as derivatives, or assets classified as available-for-sale, may subsequently in rare circumstances, be reclassified from the fair value through profit or loss category to the loans and receivables, available-for-sale or held-to-maturity categories. Financial liabilities are classified as fair value through profit or loss if they are either held for trading or otherwise designated at fair value through profit or loss on initial recognition.

ACCOUNTING POLICIES (Continued)

ACCOUNTING POLICIES RELATING TO COMPARATIVES - IAS 39 (Continued)

a) Financial assets and liabilities at fair value through profit or loss

Financial assets and financial liabilities are classified as FVTPL if they are either held for trading or otherwise designated at FVTPL on initial recognition. Financial assets and financial liabilities are classified as held for trading if they are derivatives or if they are acquired or incurred principally for the purpose of selling or repurchasing in the near-term, or form part of a portfolio of financial instruments that are managed together and for which there is evidence of short-term profit taking. In certain circumstances, financial assets and financial liabilities other than those that are held for trading are designated at FVTPL where this results in more relevant information because it significantly reduces a measurement inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains or losses on them on a different basis, where the assets or liabilities are managed and their performance evaluated on a fair value basis, or where a financial asset or financial liability contains one or more embedded derivatives which are not closely related to the host contract.

Financial assets and financial liabilities classified as FVTPL are initially recognised at fair value and transaction costs are taken directly to the income statement. Gains and losses arising from changes in fair value are included directly in the income statement except for gains and losses on financial liabilities designated at FVTPL relating to own credit which are presented in other comprehensive income.

b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments, that are not quoted in an active market and which are not classified as available-for-sale or FVTPL. They arise when the Bank provides money or services directly to a customer with no intention of trading the loan. Loans and receivables are initially recognised at fair value including direct and incremental transaction costs. They are subsequently valued at amortised cost, using the effective interest method. Loans and receivables consist of loans and advances to banks and loans and advances to customers.

c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and are not categorised into any of the other categories described. They are initially recognised at fair value including direct and incremental transaction costs, and subsequently held at fair value. Gains and losses arising from changes in fair value are recognised in other comprehensive income until sale or until determined to be impaired when the cumulative gain or loss or impairment losses are transferred to the income statement. Where the financial asset is interest-bearing, interest is determined using the effective interest method. Income on investments in equity shares, debt instruments and other similar interests is recognised in the income statement as and when dividends are declared and interest is accrued. Impairment losses and foreign exchange translation differences on monetary items are recognised in the income statement.

d) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity other than those that meet the definition of loans and receivables or that the Bank designates upon initial recognition as at fair value through profit or loss, or available-for-sale. They are initially recognised at fair value including direct and incremental transaction costs and measured subsequently at amortised cost, using the effective interest method, less any provision for impairment. A sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments to available-for-sale financial assets.

ACCOUNTING POLICIES (Continued)

ACCOUNTING POLICIES RELATING TO COMPARATIVES - IAS 39 (Continued)

Impairment of financial assets – IAS 39

At each reporting date, the Bank assesses whether there is objective evidence that a financial asset or a set of financial assets is impaired. A financial asset or a set of financial assets is impaired and impairment losses are incurred if there is:

- objective evidence of impairment as a result of a loss event that occurred after the initial recognition of the asset and up to the reporting date;
- the loss event had an impact on the estimated future cash flows of the Bank's financial assets; and
- a reliable estimate of the amount can be realised.

a) Assets carried at amortised cost

For loans and advances and held-to-maturity investments, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

Subsequent to the recognition of an impairment loss on a financial asset or a group of financial assets, interest income continues to be recognised on an effective interest rate basis, on the asset's carrying value net of impairment provisions. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

Impairment allowances are assessed individually for financial assets that are individually significant. Impairment allowances for portfolios of smaller balance homogenous loans that are below the individual assessment thresholds, and for loan losses that have been incurred but not separately identified at the balance sheet date, are determined on a collective basis.

(b) Impairment of financial investments in AFS portfolio

The Bank assesses, at each balance sheet date, whether there is objective evidence that a financial investment in the AFS portfolio is impaired. In case of such evidence, it is considered impaired if its acquisition cost (net of any principal repayments and amortisation) exceeds the recoverable amount. The recoverable amount of a quoted financial investment in the AFS portfolio is determined to be impaired if objective evidence indicates that the decline in market price has reached such a level that recovery of the cost value cannot be reasonably expected within the foreseeable future.

The standard method applied for a non-quoted equity instrument is based on the multiple of earnings observed in the market for comparable companies. Management may adjust the valuation determined in this way based on its judgement.

If a financial investment in the AFS portfolio is determined to be impaired, the cumulative loss that was previously recognised in equity is included in the income statement as a component of 'Impairment charges on financial assets'. After recognition of impairment on a financial investment in the AFS portfolio, an increase in fair value of a debt instrument up to the original cost is recognised in the income statement as a component of 'Impairment charges on financial assets', provided the fair value increase is objectively related to a specific event occurring after the impairment loss was recognised in the Income Statement.

Impairment of non-financial assets

At each Balance Sheet date, or more frequently when events or changes in circumstances dictate, property plant and equipment (including operating lease assets) and intangible assets (including goodwill) are assessed for indicators of impairment. If indications are present, these assets are subject to an impairment review.

ACCOUNTING POLICIES (Continued)

ACCOUNTING POLICIES RELATING TO COMPARATIVES - IAS 39 (Continued)

The impairment review comprises a comparison of the carrying amount of the asset or cash generating unit with its recoverable amount: the higher of the asset's or cash-generating unit's fair value less costs to sell and its value in use. The cash-generating unit represents the lowest level at which non-financial assets including goodwill is monitored for internal management purposes and is not larger than an operating segment.

The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Value in use is calculated by discounting management's expected future cash flows obtainable as a result of the asset's continued use, including those resulting from its ultimate disposal, at a market-based discount rate on a pre-tax basis. The recoverable amounts of goodwill have been based on value in use calculations.

1.16 CRITICAL JUDGEMENTS AND ACCOUNTING ESTIMATES

The preparation of the Financial Statements requires management to make judgements and accounting estimates that affect the reported amount of assets and liabilities at the date of the Financial Statements and the reported amount of income and expenses during the reporting period. Management evaluates its judgements and accounting estimates, which are based on historical experience and on various other factors that are believed to be reasonable under the circumstances, on an ongoing basis. Actual results may differ from these accounting estimates under different assumptions or conditions.

The following accounting estimates and judgements are considered important for the Bank's financial results and financial condition because:

- (i) they are highly vulnerable to change from period to period as assumptions are made to calculate the estimates, and
- (ii) any significant difference between the estimated amounts and actual amounts could have a material impact on the Bank's future financial results and financial condition.

Credit impairment allowance

The application of the ECL impairment methodology for calculating credit impairment allowances is highly susceptible to change from period to period. The methodology requires management to make a number of judgmental assumptions in determining the estimates. Any significant difference between the estimated amounts and actual amounts could have a material impact on the Bank's future financial results and financial condition.

Key areas of judgement in accounting estimates

The key judgements made by management in applying the ECL impairment methodology are set out below.

- Definition of default
- Forward-looking information
- Probability weights
- SICR

To give the impact of forward looking economic outlook on the Bank's portfolio, following economic indicators are used to predict the credit cycle

- GDP Growth (%)
- Change in Unemployment (%)
- Change in S&P 500 (%)
- Change in Energy Index (%)
- Change in Non-Energy Index (%)
- Change in the Proportion of Downgrades (%)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019



2	Interest and similar income	2019	2018
		USD '000	USD '000
	Interest income from loans - Amortised cost	18,861	14,807
	Interest income from investments - FVOCI	2,483	1,859
	Interest income from investments - Amortised cost	461	521
	Interest income from investments - FVTPL	16	19
	Interest on interbank placements - Amortised cost	706	183
		22,527	17,389
3	Interest and similar expense	2019	2018
		USD '000	USD '000
	Deposit from customers	4,444	3,676
	Deposit from banks	1,328	656
	Intra-group borrowings	2,423	1,750
	Repurchase agreements	984	245
		9,179	6,327
4	Net fees and commission income	2019	2018
		USD '000	USD '000
	Processing fees and commission	263	541
		263	541
5	Personnel costs	2019	2018
		USD '000	USD '000
	Wages and salaries (including Directors' emoluments)	2,031	1,796
	Social security costs	225	171
	Other employee benefits	44	65
		2,300	2,032
	The average number of monthly employees (including executive Directors) was as follows:		
		2019	2018
		Number	Number
	Commercial and retail banking activities	24	21
6	Directors' emoluments	2019	2018
		USD '000	USD '000
	Short-term employee benefits	416	420
	Post-employment benefits (Defined Contribution)	3	1
	Other long-term benefits	-	-
	Termination benefits	-	-
	Share-based payment	-	-
		419	421
	Emoluments comprise salary and benefits in kind		
	Highest paid Director:		
	Emoluments	156	153

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019



7	Other Expenses	2019 USD '000	2018 USD '000
	Other premises costs	239	256
	IT costs	449	278
	Other administrative expenses	445	289
	Legal and professional costs	931	475
	Marketing expenses	89	57
	Finance costs	85	87
		<u>2,237</u>	<u>1,442</u>
	Legal and professional costs include the following:		
	Auditor's remuneration - Auditing of Financial Statements	87	85
	Auditor's remuneration - other services	-	-
		<u>87</u>	<u>85</u>
8	Tax on Profits	2019 USD '000	2018 USD '000
	Corporate tax charge/(credit)	(1,163)	1,138
	Deferred tax (see note 18):		
	Effect of rate changes	196	(7)
	Relating to originating and reversal of temporary differences	(1,869)	65
	Adjustments in respect of prior years	(103)	18
	Total deferred tax charge/(credit)	<u>(1,776)</u>	<u>76</u>
	Total tax charge/(credit)	<u>(2,939)</u>	<u>1,214</u>

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019



Tax on Profits (Continue)

Factors affecting tax charge/(credit) for year

The differences between the tax assessed for the year and the standard rate of corporation tax are explained as follows:

	2019 USD '000	2018 USD '000
Profit/(Loss) on ordinary activities before tax	(16,635)	6,382
Standard rate of corporation tax in the UK	19.0%	19.0%
Tax charge/(credit) at the domestic income tax rate	(3,161)	1,213
Effects of:		
Tax effect of non - deductible depreciation	11	13
Tax effect of other non - deductible expenses/non-taxable income	(17)	15
Tax effect of rate changes	196	(7)
Loss utilised against profits of earlier period	1,298	-
Adjustment in respect of prior years	(1,266)	(20)
Total tax charge/(credit) for year	(2,939)	1,214

	2019 USD '000	2018 USD '000
Tax relating to expense / (credit) in FVOCI	325	(405)
Tax relating to expense / (credit) in retained earnings on adoption of IFRS	(112)	-

Factors that may affect future tax charges

As per Finance Act 2016 (No. 2) there will be a reduction to the standard corporation tax rate for the year starting 1 April 2020 to 17%.

9	Cash and balances with Banks	2019 USD '000	2018 USD '000
	Cash on hand	31	20
	Cash at Bank	4,213	1,335
		4,244	1,355
10	Loans and advances to Banks	2019 USD '000	2018 USD '000
	Interbank placements	26,337	-
		26,337	-
11	Loans and advances to customers	2019 USD '000	2018 USD '000
	Term loan	294,726	297,604
	Overdraft	31,085	41,405
	Other loans	3,717	1,109
	Gross	329,528	340,118
	Impairment loss allowances:		
	Collective Provision	-	(1,700)
	Specific provision	(27,473)	(1,600)
	Net	302,055	336,818

Detailed information around impairment loss allowance is given under Note-29 in Credit Risk section.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019



12 Financial Investments at Fair Value through OCI	2019	2018
	USD '000	USD '000
Quoted investments		
Government debt securities	48,237	26,699
Other securities	55,031	55,582
	<u>103,268</u>	<u>82,281</u>

As per IFRS 9, the carrying amount of financial assets measured at FVOCI is not reduced by the ECL provision and it remains at fair value. Instead, an amount equal to the allowance is adjusted against fair value reserve.

13 Other Financial Assets at Amortised Cost	2019	2018
	USD '000	USD '000
Quoted investments		
Government debt securities	-	-
Other securities	12,239	13,807
	<u>12,239</u>	<u>13,807</u>

14 Derivative financial instruments

The Bank deals in various currencies and it is not always possible to match the asset and liability in each currency. As a result, the Bank uses currency swaps to eliminate currency risks in long or short-term currency positions. These derivatives are revalued daily and any change in their fair value is recognised in the income statement.

The table below shows the fair value of derivative financial instruments recorded as assets or liabilities together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are indicative of neither the market risk nor the credit risk.

Derivatives used as:	31-Mar-19		Notional amount
	Assets	Liabilities	
	USD '000	USD '000	USD '000
Currency swaps	409	-	74,534
	<u>409</u>	<u>-</u>	<u>74,534</u>
	31-Mar-18		Notional amount
	Assets	Liabilities	
	USD '000	USD '000	USD '000
Currency swaps	-	426	25,084
	<u>-</u>	<u>426</u>	<u>25,084</u>

There is no incidence of default of any counterparty with whom the Bank has entered into such contracts. The Bank does not anticipate deterioration of the credit quality of issuers of any such derivative contracts. All the contracts are double legged with the same institution, and as such maximum risk on account of default is the marked to market value, which is already provided in the financial statements. No exchange of principal is required in any of the trades.

15 **Fair value of assets and liabilities**

IFRS 13 Fair Value Measurement requires an entity to classify its assets and liabilities according to a hierarchy that reflects the observability of significant market inputs. The three levels of the fair value hierarchy are defined below.

Level 1 Securities: The fair value for financial instruments traded in active markets is based on their quoted market price or dealer price quotations without any deduction for transaction costs.

Level 2 Securities: For all other financial instruments not traded in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flow method, comparison to similar instruments for which market observable prices exist, options pricing models, credit models and other relevant valuation models.

Financial Instrument classified as Level 2 & their valuation techniques are given below

Financial Instruments	Valuation techniques
Financial assets	
Financial investments – Amortised cost	Discounted cash flow method
Loans and advances to Banks	Discounted cash flow method
Loans and advances to customers	Discounted cash flow method
Financial liabilities	
Deposits from Banks	Discounted cash flow method
Deposits from customers	Discounted cash flow method
Repurchase agreements	Discounted cash flow method

The following tables set out the valuation methodologies adopted by asset and liability categories measured at fair value in the financial statements:

	2018-19		
	Quoted market prices (Level 1)	Valuation techniques using observable market data (Level 2)	Valuation techniques using non- observable market data (Level 3)
	USD '000	USD '000	USD '000
Financial assets			
Financial investments – FVOCI	48,237	55,031	-
Financial investments – Amortised cost	-	12,239	-
Loans and advances to Banks	-	26,337	-
Loans and advances to customers (gross)	-	329,528	-
Derivative financial instruments - Assets	-	409	-
	48,237	423,545	-
Financial liabilities			
Derivative financial instruments - Liabilities	-	-	-
Deposits from Banks	-	89,951	-
Deposits from customers	-	239,778	-
Repurchase agreements	-	30,326	-
	-	360,054	-

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Fair value of assets and liabilities (continued)

	2017-18		
	Quoted market prices (Level 1)	Valuation techniques using observable market data (Level 2)	Valuation techniques using non- observable market data (Level 3)
	USD '000	USD '000	USD '000
Financial assets			
Financial investments – AFS	26,699	55,582	-
Financial investments – HTM	-	13,807	-
Financial investments – HFT	1,916	-	-
Loans and advances to Banks	-	-	-
Loans and advances to customers (gross)	-	340,118	-
Derivative financial instruments - Assets	-	-	-
	<u>28,615</u>	<u>409,507</u>	<u>-</u>
Financial liabilities			
Derivative financial instruments - liabilities	-	426	-
Deposits from Banks	-	94,569	-
Deposits from customers	-	215,566	-
Repurchase agreements	-	33,081	-
	<u>-</u>	<u>343,642</u>	<u>-</u>

16	Property, plant and equipment	Leasehold improvements USD '000	Furniture & equipment USD '000	Computer hardware USD '000	Total USD '000
	Cost				
	As at 31 March 2017	559	284	160	1,003
	Additions	-	11	46	57
	As at 31 March 2018	<u>559</u>	<u>295</u>	<u>206</u>	<u>1,060</u>
	Additions	-	4	10	14
	As at 31 March 2019	<u>559</u>	<u>299</u>	<u>216</u>	<u>1,074</u>
	Cumulative depreciation				
	As at 31 March 2017	(205)	(196)	(141)	(542)
	Depreciation charge	(56)	(58)	(8)	(122)
	As at 31 March 2018	<u>(261)</u>	<u>(254)</u>	<u>(149)</u>	<u>(664)</u>
	Depreciation charge	(56)	(34)	(30)	(120)
	As at 31 March 2019	<u>(317)</u>	<u>(288)</u>	<u>(179)</u>	<u>(783)</u>
	Net book value				
	As at 1 April 2018	<u>298</u>	<u>40</u>	<u>57</u>	<u>395</u>
	As at 31 March 2019	<u>242</u>	<u>11</u>	<u>37</u>	<u>290</u>

17	Intangible assets		Capitalised software USD '000
	Cost		
	As at 1 April 2017		244
	Additions		36
	As at 31 March 2018		280
	Additions		155
	As at 31 March 2019		435
	Amortisation		
	As at 1 April 2017		(214)
	Additions		(17)
	As at 31 March 2018		(231)
	Amortisation charge for the year		(40)
	As at 31 March 2019		(271)
	Carrying value		
	As at 31 March 2018		49
	As at 31 March 2019		164
18	Deferred tax assets	2019 USD '000	2018 USD '000
	Deferred tax assets on losses		
	As at 1 April	826	489
	Tax credit to income statement	1,791	(68)
	Tax relating to change in fair value of AFS	(325)	405
	Tax relating to IFRS transitional adjustment in retained earnings	112	-
	As at 31 March	2,404	826

Deferred tax assets recognised during the financial year considering losses before tax amounting to \$16.6m. In view of the current Business plan, Bank is expecting to make appropriate profits to absorb its accumulate losses and realise the Deferred tax assets.

Deferred income tax is the tax expected to be payable or recoverable on income tax losses available to carry forward and on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Financial Statements.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the assets may be utilised as they reverse.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on rates enacted or substantively enacted at the balance sheet date.

The Bank reviews the carrying amount of deferred tax assets at each balance sheet date and reduces it to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities on fixed assets	2019 USD '000	2018 USD '000
As at 1 April	17	9
Tax charge to income statement	15	8
As at 31 March	32	17

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19 Other assets	2019 USD '000	2018 USD '000
Other receivables	426	458
Prepayments and accrued income	981	1,336
Corporation tax receivable	1,244	-
	<u>2,651</u>	<u>1,794</u>
20 Deposits from Banks	2019 USD '000	2018 USD '000
Interbank borrowings	29,387	32,140
	<u>29,387</u>	<u>32,140</u>
21 Intra-group borrowings	2019 USD '000	2018 USD '000
Intra-group borrowings	60,564	62,429
	<u>60,564</u>	<u>62,429</u>
22 Deposits from customers	2019 USD '000	2018 USD '000
Current accounts	9,834	5,064
Savings accounts	1,450	2,772
Fixed term deposits	228,494	207,730
	<u>239,778</u>	<u>215,566</u>

23 Repurchase agreements

The Bank enters into repurchase agreements in the normal course of business by which it transfers recognised financial assets directly to third parties. As the substance of the sale and repurchase is secured borrowings, the asset collateral continues to be recognised in full and the related liability reflecting the Bank's obligation to repurchase the transferred assets for a fixed price at a future date is recognised as liability. As a result of these transactions, the Bank is unable to use, sell or pledge the transferred assets for the duration of the transaction. The Bank remains exposed to interest rate risk and credit risk on these pledged transactions. The counterparty's recourse is not limited to the transferred assets.

	2019 USD '000	2019 USD '000	2018 USD '000	2018 USD '000
	Carrying amount of transferred assets	Carrying amount of associated liabilities	Carrying amount of transferred assets	Carrying amount of associated liabilities
Repurchase agreements	<u>37,998</u>	<u>30,326</u>	<u>39,585</u>	<u>33,081</u>

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019



24	Other liabilities		2019	2018
			USD '000	USD '000
	Accruals and deferred income		632	554
	Corporation tax liability		-	425
	Provisions for dilapidation		98	82
			<u>730</u>	<u>1,061</u>
25	Operating lease commitments			
	Payments recognised in expenses:			
			Land and buildings	Land and buildings
			2019	2018
			USD '000	USD '000
	Rent of Bank premises at Senator House		316	307
			<u>316</u>	<u>307</u>
	Total of future minimum lease payments under non-cancellable operating lease are as follows:			
			2019	2018
			USD '000	USD '000
	Within one year		353	379
	In two to five years		1,189	1,519
	In over five years		-	47
			<u>1,542</u>	<u>1,945</u>
26	Share capital	2019	2018	
		Number	Number	
	Authorised Capital			
	Ordinary shares of GBP 1 each	<u>2</u>	<u>2</u>	<u>0.003</u> <u>0.003</u>
	Ordinary shares of USD 1 each	<u>100,000,000</u>	<u>100,000,000</u>	<u>100,000</u> <u>100,000</u>
	Issued and fully paid			
	Ordinary shares of GBP 1 each	<u>2</u>	<u>2</u>	<u>0.003</u> <u>0.003</u>
	Ordinary shares of USD 1 each			
	As at 1 April	90,000,000	80,000,000	90,000 80,000
	Issue of Share Capital *	10,000,000	10,000,000	10,000 10,000
	As at 31 March	<u>100,000,000</u>	<u>90,000,000</u>	<u>100,000</u> <u>90,000</u>

* The Bank has issued share capital of \$10,000,000 (2018: \$10,000,000) in favour of its parent company, Union Bank of India, by way of ordinary shares of \$1 each.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019



27 Other commitments and contingencies

Commitments in respect of financial instruments are as follows:

	2019 USD '000	2018 USD '000
Foreign exchange - Assets	75,399	24,818
Foreign exchange - Liabilities	74,990	25,244
Bank guarantee	115	124
Undrawn committed facilities	41,203	12,809

Foreign exchange - Assets & Liabilities pertains to Fx Swap deals which are normally having original maturity less than one year

Bank Guarantees - Performance Guarantees issued in favour of existing customers

Contracted maturities of above commitments and contingencies varies from 90 days to 4 years.

Undrawn Commitments - This is the amount which is available to draw for the Loan Customers

28 Related party transactions

- a) During the year, the Bank entered into the following transactions with various branches of the Union Bank of India, (the parent bank):

	2019 USD '000	2018 USD '000
Interest income on placements	102	-
Interest income on trade finance	-	16
Interest expense on borrowings	2,423	1,750

Balances with Related parties as at 31 March:

	Amounts owed by related parties	
	2019 USD '000	2018 USD '000
Assets		
Nostro account balance with Union Bank of India, India	4	12
	<u>4</u>	<u>12</u>

	Amounts owed to related parties	
	2019 USD '000	2018 USD '000
Liabilities		
Intra-group borrowings	60,564	62,429
	<u>60,564</u>	<u>62,429</u>

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No expense has been recognised in the year for bad or doubtful debts in respect of the amounts owed by related parties.

- b) The ultimate controlling party of the Bank is Union Bank of India, incorporated in India which is both the parent Bank (ownership - 100%) and ultimate controlling party.
- c) The following key management personnel are also considered to be related parties:

Mr. Viswesvaran Radhakrishnan (Managing Director and Chief Executive Officer)

Dr. Anand Kumar (Executive Director and Deputy Chief Executive Officer)

29 Risk management

The Bank is exposed to the following risks in relation to its financial assets and liabilities:

- Credit risk
- Country risk
- Liquidity risk
- Market risk: Currency risk
- Interest rate risk
- Operational risk
- Capital risk management

Credit risk

Credit risk refers to the risk of direct or indirect losses in on and off-balance sheet positions because of the failure of a borrower or counterparty to meet its obligations in accordance with agreed terms. The Bank has appropriate policies in place that describes the principles which underpin and drive the Bank's approach to credit risk management together with the systems and processes through which they are implemented and administered.

Bank attempts to maintain a strong asset quality through disciplined credit risk management. Bank continuously monitors portfolio concentrations by borrower, groups, sectors, industry, geography, etc. and constantly strives to improve credit quality and maintain a risk profile that is diverse in terms of borrowers, products, industry types and geography.

Bank's credit portfolio is subject to internal credit rating. Bank uses separate models of credit risk assessment for different exposure segments. Bank has adopted a standardized and well-defined approval process for all advances, which involves a committee approach for credit sanctions/approvals.

The carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents the Bank's maximum exposure to credit risk. There are no financial assets to related parties which are past due or impaired.

	2019 USD '000	2018 USD '000
Neither past due nor impaired	250,435	320,029
Past due but not impaired	15,137	3,178
Impaired	63,956	16,911
Gross	329,528	340,118
Impairment loss allowances:		
Collective Provision	-	(1,700)
Specific provision	(27,473)	(1,600)
Net	302,055	336,818

Risk management (Continued)

- Financial assets are individually assessed to identify the event of impairment. The Bank considers several events including credit rating deterioration, negative media report, economic outlook of industry & geography, breach in key financial covenants, past due days etc. as triggers that may lead to impairment.
- If the impairment event triggers, then the bank considers the options of forbearance (if it's feasible for the counterparty to remain going concern) and liquidation. In case of forbearance, NPV (Net present value) loss arising from NPV comparison from existing and revised contract, is treated as impairment loss. In case of liquidation, available securities and hierarchy of debt is considered to calculate the impairment loss.
- During this financial year, impairment event triggered for eight loan assets. Total exposure to these assets is \$46.4m. The recovery process has been started for these eight assets. Total specific impairment loss of \$25.2m has been recognised during this financial year.

CREDIT RISK REVIEW
IFRS 9 Credit Quality

Loans to Customers	2019	2018
	USD '000	USD '000
Gross Exposure	329,528	340,118
Less:- Loan loss provision	(27,473)	(3,300)
Net Exposure	302,055	336,818
Financial Instruments (excluding Derivatives)	2019	2018
	USD '000	USD '000
<u>Financial assets at fair value through profit or loss:</u>		
Financial Investment	-	1,916
<u>Financial Assets at amortised cost:</u>		
Loans and advances to customers (gross)	329,528	340,118
Financial investments	12,239	13,807
Loans and advances to Banks	26,337	-
Other financial assets at amortised cost	4,244	1,355
	372,349	355,280
<u>Financial assets at fair value through other comprehensive income:</u>		
	2019	2018
	USD '000	USD '000
Financial investments	103,268	82,281
Total	475,617	439,477

CREDIT RISK REVIEW (Continued)

Analysis of the Financial Instruments (excluding Derivatives)		2019	2018
		USD '000	USD '000
Due within one year		122,799	40,792
Due in more than one year		352,818	398,685
Total		475,617	439,477

Particulars		2019	2018
		USD '000	USD '000
Neither past due nor impaired		396,523	419,388
Past due but not impaired		15,137	3,178
Impaired		63,956	16,911
Total		475,617	439,477

Loans to Customers as at 31 March 2019

Particulars	Stage 1	Stage 2	Stage 3	Total
	USD '000	USD '000	USD '000	USD '000
Gross carrying amount	222,183	43,388	63,956	329,528
Impairment provision	(416)	(35)	(27,022)	(27,473)
Net amounts receivable	221,767	43,353	36,935	302,055

Loans to Customers	Stage 1	Stage 2	Stage 3	Total
	USD '000	USD '000	USD '000	USD '000
Gross carrying amount as at 1st April 2018	323,208	-	16,911	340,118
Changes in the loss provision attributable to:				
- Transfer from stage 1 to 2	(45,904)	45,904	-	-
- Transfer from stage 1 to 3	(46,437)	-	46,437	-
- Transfer from stage 2 to 1	-	-	-	-
- Transfer from stage 2 to 3	-	-	-	-
- Transfer from stage 3 to 2	-	-	-	-
- Transfer from stage 3 to 1	-	-	-	-
New receivables originated or purchased	39,948	3,259	-	43,207
Net Repayments of loans	(48,631)	(5,775)	609	(53,797)
Derecognition of modified loans	-	-	-	-
Other movements	-	-	-	-
Gross carrying amount as at 31 March 2019	222,183	43,388	63,956	329,528

CREDIT RISK REVIEW (Continued)

Analysis of the Financial Instruments (excluding Derivatives) (Continued)

Particulars	Stage 1 USD '000	Stage 2 USD '000	Stage 3 USD '000	Total USD '000
* Loan loss provision as at 1 April 2018	626	-	1,600	2,226
Changes in the loss provision attributable to:				
- Transfer from stage 1 to 2	(75)	75	-	-
- Transfer from stage 1 to 3	(81)	-	81	-
- Transfer from stage 2 to 1	-	-	-	-
- Transfer from stage 2 to 3	-	-	-	-
- Transfer from stage 3 to 2	-	-	-	-
- Transfer from stage 3 to 1	-	-	-	-
Net re-measurement of ECL arising from transfer of stage	(66)	(46)	22,725	22,612
New receivables originated or purchased	32	7	-	39
Net Repayments of loans	(20)	-	2,616	2,596
Derecognition of modified loans	-	-	-	-
Other movements	-	-	-	-
Loan loss provision as at 31 March 2019	572	(40)	26,941	27,473

* Note: Above loan loss provision as at 1st April 2019 is as per IFRS 9 (refer note 1.4)

Rescheduled loans	2019 USD '000	2018 USD '000
Term loan	72,904	40,178
Overdraft	-	-
Other Loans	-	-
	72,904	40,178

The below tables provides detail on the staging of rescheduled loans as at 31 March 2019:

	Stage 1 USD '000	Stage 2 USD '000	Stage 3 USD '000	Total USD '000
As at 31 March 2019				
Term loan	10,319	7,593	54,992	72,904
Overdraft	-	-	-	-
Other Loans	-	-	-	-
Gross carrying amount	10,319	7,593	54,992	72,904
Term loan	9	3	19,956	19,968
Overdraft	-	-	-	-
Other Loans	-	-	-	-
Impairment provision	9	3	19,956	19,968
Term loan	10,310	7,590	35,035	52,936
Overdraft	-	-	-	-
Other Loans	-	-	-	-
Net amounts receivable	10,310	7,590	35,035	52,936

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Collateral:

Collateral is held to mitigate credit risk exposure and may include one or more of:

1. Bank Deposits under Lien including those with third party institutions
2. Marketable Securities
3. Current Assets
4. Bank Guarantees & Letters of Credit
5. Fixed Assets (Movable & Immovable)
6. Real Estate
7. Corporate/Personal Guaranty

Bifurcation of loan book according to available security is give below:

	2019 USD '000	2018 USD '000
Secured	311,467	320,574
Unsecured	18,061	19,544
Total	329,528	340,118

There is no significant change in quality of Collateral during the financial year due to change in accounting policies or otherwise

Country risk exposure

Country risk is the risk of an adverse effect that an occurrence within a country could have on the Bank. The Bank's risk management framework incorporates measures and tools to monitor this risk. The following table provides a summary by country of risk as of:

Countries	2019 Exposure USD '000	2018 Exposure USD '000	2019 % of Total Exposure	2018 % of Total Exposure
Australia	3,472	3,388	0.7%	0.8%
Belgium	6,704	8,242	1.4%	1.9%
British Virgin Island	16,673	20,561	3.5%	4.7%
Cayman Island	17,995	18,168	3.8%	4.1%
Germany	5,559	7,831	1.2%	1.8%
India	120,806	96,326	25.4%	21.9%
Indonesia	6,852	8,354	1.4%	1.9%
Korea, Republic of	2,503	2,444	0.5%	0.6%
Kuwait	1,484	1,460	0.3%	0.3%
Mauritius	4,945	7,980	1.0%	1.8%
Mexico	6,534	7,489	1.4%	1.7%
Netherlands	5,001	5,070	1.1%	1.2%
Oman	3,718	3,793	0.8%	0.9%
Other (MDBs)	3,620	3,411	0.8%	0.8%
Portugal	2,385	3,359	0.5%	0.8%
Singapore	25,918	27,579	5.4%	6.3%
South Africa	-	5,471	0.0%	1.2%
United Arab Emirates	20,603	23,499	4.3%	5.3%
United Kingdom	129,379	111,172	27.2%	25.3%
United States of America	91,466	73,881	19.2%	16.8%
	475,617	439,477	100.0%	100.0%

Risk management (Continued)

Liquidity risk

Liquidity risk is the risk of failure by the Bank to meet its financial obligations as and when they fall due.

Liquidity risk is managed by balancing its cash flows with forward thinking rolling time bands so that under normal conditions the Bank is comfortably placed to meet its payment obligations as they fall due. The immediate focus is on short and medium-term funding and liquid asset management. This ensures management of liquidity risks as part of bank's ongoing business management within daily operations, strategy and planning.

The Bank has developed its Internal Liquidity Adequacy Assessment Process (ILAAP) and stress testing process to assess the liquidity adequacy, the results of which have been reviewed by Senior Management during the year.

The liquidity profile as at reporting date is as shown below:

	Non-derivative financial assets		Non-derivative financial liabilities	
	2019	2018	2019	2018
	USD '000	USD '000	USD '000	USD '000
On Demand	5,744	-	11,284	7,836
Due within 3 months	24,669	27,138	34,505	32,019
Due between 3 to 12 months	83,690	88,213	165,370	150,399
Due between 1 to 5 years	258,899	261,518	148,895	152,962
Due after 5 years	102,613	62,608	-	-
Total	475,617	439,477	360,054	343,216

	Derivative financial assets		Derivative financial liabilities	
	2019	2018	2019	2018
	USD '000	USD '000	USD '000	USD '000
On Demand	-	-	-	-
Due within 3 months	26,686	5,983	26,232	5,981
Due between 3 to 12 months	48,713	18,835	48,758	19,263
Due between 1 to 5 years	-	-	-	-
Due after 5 years	-	-	-	-
	75,399	24,818	74,990	25,244

The responsibility for ensuring that the Bank can meet its obligations as they fall due rests with the Bank's management. Under the PRA regulations the Bank is compliant with its ILG on an ongoing basis. The Bank has a prudent liquidity policy and adequate management systems and controls in place to ensure that the policy is adhered to at all times.

- The Board of Directors are ultimately responsible for ensuring that the liquidity policy remains relevant and up to date at all times and is in line with the Bank's business activities and expressed risk tolerance.

The Asset and Liability Committee ("ALCO") is responsible for reviewing and recommending liquidity policy to the Board of Directors. ALCO is supported by the Risk function, which is responsible for monitoring the compliance on a daily basis.

The Bank has developed its ILAAP, which includes a series of stress tests and limits.

- The responsibility of day-to-day management of the Bank's liquidity position is delegated to the Bank's Treasury department.

Risk management (Continued)

Currency risk

Currency risk is the risk that arises from the change in price of one currency against another.

The Bank is mainly exposed to fluctuations in the value of GBP, EUR and INR. Bank manages the exposures to the variability in cash flows of foreign currency denominated assets and liabilities to movements in foreign exchange rates by entering into cross currency swaps. These instruments are entered into to match the cash flow profile. Bank has defined policy and low risk appetite to hold overnight open position in foreign currencies. Open position is monitored on daily basis and ensured that it remains within the risk appetite at all times.

The Net open position in foreign currencies at the reporting date is as follows:

	Assets		Liabilities	
	2019	2018	2019	2018
	USD '000	USD '000	USD '000	USD '000
INR	4	12	-	-
GBP	-	-	350	442
EURO	286	667	-	-

The currency risk is managed by keeping open position within the risk appetite all the time.

Upward or downward movement of exchange rates by 10% may impact profitability of the Bank by \$0.03m (2018: \$0.07m).

Interest rate risk

Interest rate risk is the risk that arises due to possibilities of a fluctuation in rates, and how that impacts on the pricing structure of the Bank's assets and liabilities. The Bank is also exposed to interest rate risk due to the nature of the rate being either fixed or floating. Most liabilities have fixed interest rates while for some assets interest rates are floating and are benchmarked to certain index rates like LIBOR or Bank rates which are dynamic and prone to fluctuations.

The Bank's ALCO meets monthly to monitor this risk. ALCO in turn reviews the interest rates in various currencies arising from repricing of assets, liabilities and derivative instruments. The Bank manages part of this risk by carefully matching the cost of liabilities with that of asset pricing and if need be the Bank would use interest rate swaps to mitigate the risk.

Interest rate risk, considering interest rate sensitivity analysis at 2% shift, is \$5.03m as at 31 March 2019 (2018: \$6.59m)

Operational risk

Operational risk is defined as the potential risk of financial loss resulting from inadequate or failed internal process, systems, people or external events.

The Bank has put in place an Operational Risk Management policy to manage operational risk in an effective, efficient and proactive manner. The primary objective of the policy is to identify the operational risks that the Bank is exposed to from failed, inadequate and/or missing controls, processes, people, systems or from external events or a combination of all the five, assess or measure their magnitude, monitor them and control or mitigate them by using a variety of checks. Within the Operational risk framework, new products, processes and services introduced by the Bank are subject to rigorous risk evaluation and approval. In addition to the policy, the Bank has specific operational policies in place covering (inter alia) IT & Cyber Security, Outsourcing policy and business continuity plan.

The Bank has identified various possible risk scenarios and has put in place an internal control framework to mitigate identified risks. This framework is set out in the form of departmental policies and procedures, which are reviewed on a regular basis.

Risk management (continued)

Capital risk management

The Bank manages its capital to ensure that it will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of its capital structure. The Bank's authority to operate as a bank is dependent upon the maintenance of adequate capital resources. The Bank is required to meet minimum regulatory requirements in the UK.

The Bank's regulatory capital requirements are set by way of the ICG by the PRA. The Bank has had surplus capital over and above the capital required as per the ICG during the year.

The Bank's regulatory capital is categorised into Tier one capital, which includes ordinary share capital, and retained earnings.

	2019 USD '000	2018 USD '000
Paid up share capital	100,000	90,000
Retained earnings	(5,719)	7,069
Fair value reserves	(964)	(2,478)
Tier one capital	<u>93,317</u>	<u>94,591</u>

30 Ultimate parent company

The ultimate parent company is Union Bank of India, a public-sector bank incorporated in India, which is both the immediate and ultimate controlling party. The consolidated financial statements for Union Bank of India are available to the public and may be obtained from Union Bank Bhavan, 239, Vidhan Bhavan Marg, Nariman Point, Mumbai 400021 or from their website www.unionbankofindia.co.in.

31 Events after the balance sheet date

There have been no reportable events after the balance sheet date.

Brexit Impact - As the Bank does not have any branch or business operations outside UK, change in passporting rights would not have any direct impact on Bank's operations.

Bank continues to operate as per plan, without making any change in the business model.

In view of the Brexit, Bank has started to focus more on UK based assets instead of other EU member states.

32 Pillar III

The Bank is authorised by the PRA and regulated by the FCA and the PRA, therefore the Bank is required to publish the Pillar III disclosures. These are available at the Bank's website: www.unionbankofindiauk.co.uk.